

Minerals Management Service, Interior

§ 203.44

(3) The delay in beginning production is for reasons beyond your control, including but not limited to adverse weather and unavoidable accidents.

[69 FR 3510, Jan. 26, 2004, as amended at 69 FR 24054, Apr. 30, 2004]

§ 203.44 If I drill a certified unsuccessful well, what royalty relief will my lease earn?

Your lease may earn a royalty suspension supplement. Subject to paragraph (d) of this section, the royalty suspension supplement is in addition to

any royalty suspension volume your lease may earn under § 203.41.

(a) If you drill a certified unsuccessful well and you satisfy the administrative requirements of § 203.46 and subject to the price conditions in § 203.47, you earn a royalty suspension supplement shown in the following table (in billions of cubic feet of gas equivalent (BCFE) or in thousands of cubic feet of gas equivalent (MCFE)) applicable to oil and gas production as prescribed in § 204.45:

If you have a certified unsuccessful well that is . . .	Then, you earn a royalty suspension supplement on this volume of oil and gas production as prescribed in this section and § 203.45:
(1) An original well and your lease has not produced gas or oil from a deep well.	5 BCFE.
(2) A sidetrack (with a sidetrack measured depth of at least 10,000 feet) and your lease has not produced gas or oil from a deep well.	0.8 BCFE plus 120 MCFE times sidetrack measured depth (rounded to the nearest 100 feet) but no more than 5 BCFE.
(3) An original well or a sidetrack (with a sidetrack measured depth of at least 10,000 feet) and your lease has produced gas or oil from a deep well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.	2 BCFE.

(b) We will suspend royalties on oil and gas volumes produced on or after May 3, 2004, reported on the Oil and Gas Operations Report, Part A (OGOR-A) for your lease under § 216.53, as and to the extent prescribed in § 203.45. All oil and gas production reported on the OGOR-A, including production that is not subject to royalty (except for production to which a royalty suspension volume under §§ 203.41 and 203.42 applies), counts toward the lease royalty suspension supplement.

Example 1. If you drill a certified unsuccessful well that is an original well to a target 19,000 feet TVD SS, you earn a royalty suspension supplement of 5 BCFE of gas and oil production if your lease has not previously produced from a deep well, or you earn a royalty suspension supplement of 2 BCFE of gas and oil production if your lease has previously produced from a deep well with a perforated interval from 15,000 to less than 18,000 feet TVD SS, as prescribed in § 203.45.

Example 2. If you drill a certified unsuccessful well that is a sidetrack that reaches a target 19,000 feet TVD SS, that has a sidetrack measured depth of 12,545 feet, and your lease has not produced gas or oil from any deep well, we round the distance to 12,500 feet and you earn a royalty suspension supplement of 2.3 BCFE of gas and oil production as prescribed in § 203.45.

(c) The conversion from oil to gas for using the royalty suspension supplement is specified in § 203.73.

(d) Each lease is eligible for up to two royalty suspension supplements. Therefore, the total royalty suspension supplement for a lease cannot exceed 10 BCFE.

(1) You may not earn more than one royalty suspension supplement from a single wellbore.

(2) If you begin drilling a certified unsuccessful well on one lease but the completion target is on a second lease, the entire royalty suspension supplement belongs to the second lease. However, if the target straddles a lease line, the lease where the surface of the well is located earns the royalty suspension supplement.

(e) If the same wellbore that earns a royalty suspension supplement as a certified unsuccessful well later produces from a perforated interval the top of which is 15,000 feet TVD SS or deeper before May 3, 2009, it will become a qualified well subject to the following conditions:

(1) Beginning on the date production starts, you must stop applying the royalty suspension supplement earned by that wellbore to your lease production.

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(2) If the completion of this qualified well is on your lease or, in the case of a directional well, is on another lease, then you must subtract from the royalty suspension volume earned by that qualified well the royalty suspension supplement amounts earned by that wellbore that have already been applied either on your lease or any other lease. The difference represents the royalty suspension volume earned by the qualified well.

(f) If the same wellbore that earned a royalty suspension supplement later has a sidetrack drilled from that wellbore, you are not required to subtract any royalty suspension supplement earned by that wellbore from the royalty suspension volume that may be earned by the sidetrack.

(g) You owe minimum royalties or rentals in accordance with your lease terms notwithstanding any royalty suspension supplements under this section.

[69 FR 3510, Jan. 26, 2004, as amended at 69 FR 24054, Apr. 30, 2004]

§ 203.45 To which production do I apply the royalty suspension supplements from drilling one or two certified unsuccessful wells on my lease?

(a) Subject to the requirements of §§ 203.40, 203.42, 203.44, 203.46 and 203.47, you must apply royalty suspension supplements in § 203.44 to the earliest oil and gas production:

(1) Occurring on and after the day you file the information under § 203.46(b),

(2) From, or allocated under an MMS-approved unit agreement to, the lease on which the certified unsuccessful well was drilled, without regard to the drilling depth of the well producing the gas or oil.

(b) If you have a royalty suspension volume for the lease under § 203.41, you must use the royalty suspension volumes for gas produced from qualified wells on the lease before using royalty suspension supplements for gas produced from qualified wells.

Example to paragraph (b): ≤You have two shallow oil wells on your lease. Then you drill a certified unsuccessful well and earn a royalty suspension supplement of 5 BCFE. Thereafter, you begin production from an

original well that is a qualified well that earns a royalty suspension volume of 15 BCF. You use only 2 BCFE of the royalty suspension supplement before the oil wells deplete. You must use up the 15 BCF of royalty suspension volume before you use the remaining 3 BCFE of the royalty suspension supplement for gas produced from the qualified well.

(c) If you have no current production on which to apply the royalty suspension supplement allowed under § 203.44, your royalty suspension supplement applies to the earliest subsequent production of gas and oil from, or allocated under an MMS-approved unit agreement to, your lease.

(d) Unused royalty suspension supplements transfer to a successor lessee and expire with the lease.

(e) You may not apply the royalty suspension supplement allowed under § 203.44 to production from any other lease, except for production allocated to your lease from an MMS-approved unit agreement. If your certified unsuccessful well is on a lease subject to an MMS-approved unit agreement, the lessees of other leases in the unit may not apply any portion of the royalty suspension supplement for your lease to production from the other leases in the unit.

(f) You must begin or resume paying royalties when cumulative gas and oil production from, or allocated under an MMS-approved unit agreement to, your lease (excluding any gas produced from qualified wells subject to a royalty suspension volume allowed under § 203.41) reaches the applicable royalty suspension supplement. For the month in which the cumulative production reaches this royalty suspension supplement, you owe royalties on the portion of gas or oil production that exceeds the amount of the royalty suspension supplement remaining at the beginning of that month.

§ 203.46 What administrative steps do I take to obtain and use the royalty suspension supplement?

(a) Before you start drilling a well on your lease targeted to a reservoir at least 18,000 feet TVD SS, you must notify, in writing, the MMS Regional Supervisor for Production and Development of your intent to begin drilling operations and the depth of the target.